



## Memorandum

Date: March 9, 1999

To: CALFED Policy Group

From: Lester A. Snow 

Subject: Endowments for Long Term Operations and Maintenance of Category Three Projects

### Summary

The state General Obligation Bond Law and federal Internal Revenue Code limit the use of state bond funds to pay for long-term activities necessary for ecosystem restoration actions on properties acquired with CALFED funds (i.e., long-term maintenance of a capital asset).

### Detailed Discussion

As presented to the Small Group in January, legal limitations require that only private entities, such as non-profit organizations, or federal agencies, can use Prop. 204 funds to establish endowments to pay for long-term actions necessary for ecosystem restoration on acquired properties. State agencies cannot receive Prop. 204 funds to establish endowments. Further, state agencies cannot receive the benefit of endowments established with Prop. 204 funds, even if the endowment is established by a non-state entity.

The limitations on the use of Prop. 204 funds raise the following policy issues:

- The principal of an endowment cannot be returned to the State. Any funds allocated to a private party or federal agency to establish an endowment are sunk costs. CALFED cannot require that the principal be returned to the State at any time or under any circumstances.

---

#### CALFED Agencies

**California**  
The Resources Agency  
Department of Fish and Game  
Department of Water Resources  
California Environmental Protection Agency  
State Water Resources Control Board

**Federal**  
Environmental Protection Agency  
Department of the Interior  
Fish and Wildlife Service  
Bureau of Reclamation  
U.S. Army Corps of Engineers

Department of Agriculture  
Natural Resources Conservation Service  
Department of Commerce  
National Marine Fisheries Service